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An Existentialist explanation of what on earth is going on in the markets

“Do come, but please excuse the mess, we have the financial markets in”

Summary

The state of hysteria, instability and absurdity currently exhibited in the global financial markets is seemingly inexplicable. However an Existentialist approach to the financial markets casts light and also clears the mental field to allow some reasonable investment suggestions.

Core statement on Existentialism

The world and life have absolutely no meaning and seeking to find a meaning can be distracting to the extreme. Accepting the absurdity of existence in a world which is indifferent is, on its own, a creative act and a brave one. The absurdity of life does not justify rejecting life, but embracing its absurdity, that is, accepting that there will be no explanation or reason, can lead to a degree of happiness based not on expectations but on reality.

And what this has to do with the financial markets ?

At the current state of the world's financial markets, accept that collectively the participants in the markets are all equally lost. They are all seeking for a meaning and not finding one and, hence, reacting as if there is one when there is not, can in itself be an instructive experience to an outside observer. This does not imply a condescending and patronizing attitude to those which keep trying. Does that mean that we reject the notion that the markets can be explained and predicted and, hence, make money from these predictions ? The answer has to be “No”, we do not reject this notion because we if accept the absurdity of what is going on, then then all these activities and expectations are a coherent and logical consequence of the absurdity.

What do we do

Step back from grand solutions, step back from the desire for unifying quantum mechanics theories applied to Economics and concentrate on small individual decisions which, on their own, make some sense. See below

Evidence on the state of absurdity of global markets

Evidence 1

USD interest rates, the policy of the Fed and market reactions. If the US economy looks as if it is doing better, then this is bad for inflation and, hence, the Fed will keep rates higher for longer. But if it does so, it may cause the economy to enter into recession. If the economy slows down, then this is good for inflation and for interest rates as the Fed may cut, but it is bad....for the economy ! Dog chasing its own tail.

Evidence 2

The markets have now accepted that we are in long period of high rates. However, of the four biggest economies in the world, two have high and rising rates, the US and the EU, and two, China and Japan have falling to stable and extremely low rates. So, what we have globally high or low rates ? But then the USD market is the most important market in the world. So, apparently, we have high interest rates.

Evidence 3

The higher USD rates have strengthened the USD versus most major currencies, signs of investors finding the USD attractive. But clearly not USD denominated assets, such as US government bonds and most US shares whose prices have been falling. So, if investors sell these USD assets, they receive USD dollars, and what do they do with them? They hold them in USD accounts which have some of the safest and highest interest rates.

Evidence 4

The anecdotal evidence on climate change became overwhelming in 2023 with major floods and fires on a global scale. The rate of CO₂ emissions increased almost continuously through the post-Covid period, 2021 to date and the chances that the key 1.5C warming rate will be achieved by 2050 is close to zero. In absolute terms the worst emissions offenders other than the US, are China and India but not on a per capita basis. Needless to say, neither of these two, still underdeveloped countries, will accept substantially lower GDP growth rates in order to reduce emissions, asking instead the wealthier countries to bear the burden. None will, of course. Wait for the shambles in the COP28 meeting in Dubai (yes, a major oil producer!) at the end of this year.

Evidence 5

De-globalisation has become the flavour of the year partially blamed on the US-led de-risking from China carried via exports-imports controls. However a lot of countries have been busy in forming alliances to increase their trade and financial interdependence, such as the regeneration of BRICs bringing together such patently unconnected economies as Ethiopia and Argentina. The EU is under pressure to increase its membership, other than by accepting Ukraine. Links between China, Russia and directly and indirectly with North Korea have become stronger.

Evidence 6

While monetary policies in most major and minor countries (see exceptions in No. 2 above) are tight or getting tighter, fiscal policies have come under expansionary pressures by growth of spending on defence. Blame that on the war in the Ukraine and growing confrontation of Asian-Pacific countries and the US with China and with N.Korea. Defence spending does have expansionary impact on GDP growth but its range is limited as its products are not "consumed" by domestic consumers or, for that matter by foreigners, but then in that case the consumption is mostly "negative"!

What to do investment-wise

The global markets are full of sectors, and the firms which populate them, which can offer potential returns both in terms of valuation and in terms of expected earnings. In other words quit the efforts to understand and forecast the Fed, the ECB, the BoJ and the PBOC, so far wasted efforts as the forecasts have been broadly right but, guess what, the markets had not "priced them in". In my humble opinion and 55 years' experience in global markets, markets do not "price -in" anything in term of expectations either in direction, size, let alone timing. Also markets are not right or wrong because they are only so in terms of investors' expectations. Remember Einstein's theory of relativity?

Markets simply **are**.

This does not mean that we stop trying to get them right. This is the key precept of Existentialism's "meaninglessness" which does not mean acceptance of it, it means embracing it however absurd it may sound as thus it makes it part of the absurdity and possibly easier to live with.